

Brazil Flash

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Economic Analysis

Brazil

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COPOM reveals its intention of bringing the tightening cycle to an end

The Monetary Policy Committee (COPOM) decided to hike the SELIC rate by 25bp to 11.0%, in line with expectations. The accompanying statement was changed and signaled that the tightening cycle that has already taken reference interest rates up by 375bp since April of 2013 is over, at least if forthcoming inflation figures do not surprise to the upside.

- **The most likely is that the SELIC remains unchanged at 11.0% for some time**

The communiqué of yesterday's decision to hike the SELIC by 25bp was as follows: "The COPOM unanimously decided, at this moment, to increase the SELIC to 11.00%, without bias. The Committee will monitor the evolution of the macroeconomic scenario until its next meeting, to then decide the next steps on its monetary policy strategy". The elimination of the phrase used in the previous statements "Continuing the adjustment process" is, in our view, a first sign that the monetary authority plans to leave the policy rate unchanged at 11% in its next meeting in May 27-28. In addition, the introduction of "at this moment" in the communiqué suggest that the decision to hike the SELIC -rather than leaving it unchanged- was circumstantial (in January the COPOM introduced the same expression to reveal its plan to reduce the pace of the tightening to 25bp from 50bp). However, the last sentence of the statement suggests that the COPOM will remain data-dependent, meaning that persistent food prices pressures or upward surprises in forthcoming inflation readings could trigger another 25bp hike in May. Taking all this into account, and even though annual inflation (although not monthly inflation) will trend upwards in the next few months, we continue to see as the most likely scenario a stable SELIC at 11.0% for some time.

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El COPOM revela su intención de poner fin al ciclo de ajuste monetario

El Comité de Política Monetaria (COPOM) decidió aumentar la tasa SELIC en 25 p.b. hasta el 11,0%, en línea con las expectativas. El comunicado de la decisión dejó entrever que el ciclo de ajuste, que ya ha aumentado la tasa de interés de referencia en 375 p.b. desde abril de 2013, ha terminado, por lo menos si las próximas cifras de inflación no sorprenden al alza.

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